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CENTRAL INTELLIGENCE AGENCY

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SUBJECT	Critical Financial Situation in the "Treci Maj" Shipyard, Rijeka	DATE DISTR.	23 Oct 1964 50X1-HUM
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1. The engineers of the shipyard stated openly and firmly that they could assume no responsibility for the machines and various pieces of equipment because the funds available to them for maintenance were inadequate. 50X1-HUM
2. The shipyard, whose annual production amounts to 29 billion gross tonnage, is without funds; at the present time, they have only 508 million dinars from the amortization fund on hand, scarcely adequate for the replacement and maintenance of machinery. In view of this situation, any expansion or modernization of the shipyard is out of the question.
3. In 1964, the shipyard is scheduled to deliver 6 ships; of these, several have already been launched and two consigned. (Consigned - DROMON, EPITACIO PESSOA; launched - VISEVICA, MYRON, SKYRON; still on ways - TUHOBIC.) Next year the ships ordered by the Soviet Union will be built. The shipyard has orders through 1967. 50X1-HUM
4. Recently a 36,000-ton freighter, costing over 5 billion dinars was begun [redacted] At the time the contract was signed, the shipyard estimated a profit of about 40 million dinars. The engineers, who had figured the costs, reported that by the time construction actually began, the net profit [redacted]

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had already been transformed into a loss, through an increase in costs of 150 million dinars--and that this figure is growing larger due to the constantly increasing costs of construction materials. The work of the engineers was criticized by one person only--Marko Lukovic, a political functionary who spoke for the cadres. Lukovic accused the engineers of not having considered rising costs. In fact, the contract with the [] shipping firm was signed only in December 1963.

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5. Since 1956 the value of production increased from 11 to 28.6 billion dinars, but the net profit dropped from 3.8 to 3.7 billion dinars. During the same period the following increases were effective:

- (a). Interest on credit amounted to 1.1 billion dinars;
- (b). "Social" contributions rose from 82 to 280 million dinars;
- (c). Other contributions rose from 6 (in 1958) to 41.7 million dinars.

On the basis of these unofficial figures, out of 100 dinars revenue, only 28 went to the shipyard; the remaining 72 dinars were paid out as various contributions, which include taxes, etc.

6. In the negative balance of the shipyard are also the fines for delayed deliveries; the loss incurred is sometimes greater than the value of the ship. For each day overdue, the shipyard pays from \$1,000 to 300 pounds Sterling, depending on the contract. There have even been cases where the shipyard had to pay penalties of \$50,000 or more. Prior to 1962, the shipyard had never incurred a fine, but as of that year and continuing through today, this is frequently the case. Experts attribute this to the fact that the due dates are too early and that there are delays in deliveries of parts from supplier firms. The shipyard is also said to be currently overstocked with employees assigned to positions beyond their capabilities. Work discipline in the shipyard is said to be scant; there are too many unjustified absences, no desire to fulfill the set norms, etc. The lack of work

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discipline is illustrated by the following example: 610 workers from the assembly unit held a meeting, stopping work and shutting off their machines for the purpose, to protest against a recent distribution of 5 million dinars after profit earned by their unit. Each worker reportedly received from two to seven thousand dinars; white-collar employees, however, received up to 45 thousand dinars. The management answered the protest by stating that this was in accordance with regulations, whereupon the workers began to protest loudly against the regulations. The incident had wide repercussions throughout the shipyard, and in communal and district organs as well. As a result, the shipyard has suspended the protested regulations and has returned to the former system, pending a review of the situation, in order to avoid a repetition of the incident. The local authorities sent a committee to the shipyard to investigate the incident, stating that most of the time absenteeism and malcontent were caused by the management. The management replied that there should be no malcontent at a time when pay was relatively high and on the increase. The average pay during the first four months of 1964 was about 44,000 dinars, as compared with 36,000 dinars for the same period in 1963.

7. The committee reported that of the 3,200 workers, 1,100 were white-collar employees; 200 of these latter had only elementary school certificates and 625 only had intermediate or secondary school diplomas. The committee recommended that many million dinars could be saved if the shipyard had more rigorous criteria for wages. The management supplied the following statistics on wages:

specialists are paid from	52,000 - 70,000	dinars per month
skilled workers "	32,000 - 51,000	" "
semi-skilled " "	23,000 - 38,000	" "
unskilled " "	21,000 - 28,000	" "

The lowest pay is 21,000 dinars per month, the highest 103,000. The wage scale is rising as manual labor is being eliminated. The work force of the shipyard includes 1,892 specialists and skilled workers, 443 semi-skilled workers, and only 150 unskilled laborers.

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8. The committee ordered the shipyard to evaluate the work of each employee and to prepare a list of those considered indispensable, with a view towards a large reduction in force of white-collar employees. The shipyard is said to be the "refugium peccatorum" of former activists and politicians from the Rijeka district, the majority of whom ride on the backs of the workers and other employees because they are totally incompetent and without the requisite training.

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